SEC Number **AS095-002283**
File Number ______________

DMCI HOLDINGS, INC.

(Company's Full Name)

DACON Building
2281 Pasong Tamo Extension, Makati City

(Company's Address)

816-73-64

(Telephone Number)

December 31

(Fiscal Year Ending)
(month & day)

Consolidated Financial Statements

Form Type

____

Amendment Designation (If applicable)

December 31, 1999

Period Ended Date

____

(Secondary License Type and File Number)

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1999 AND 1998 AND FOR
EACH OF THE THREE YEARS IN THE PERIOD
ENDED DECEMBER 31, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Stockholders and the Board of Directors
DMCI Holdings, Inc.

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully discussed in Note 1 to the financial statements, Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P) had incurred significant recurring losses that resulted in a cumulative deficit of ₱2.2 billion as of December 31, 1999, before the effect of the quasi-reorganization which eliminated ₱1.8 billion in deficit and the effect of the realized revaluation increments in property of ₱ 515 million transferred to retained earnings resulting from the disposals of the said assets. Furthermore, the negative cash flows that have been generated from operations greatly affected the AG&P ability to settle its maturing obligations. Accordingly, the AG&P current liabilities of ₱1.9 billion far exceeded its current assets by ₱1.1 billion as of December 31, 1999. The AG&P current financial position indicates that sufficient cash flow has to be generated to finance its operations, fully service its maturing obligations and ensure success of future operations. However, as also described in Note 1, the AG&P management has been undertaking measures to address the foregoing conditions.

As more fully discussed in Note 1 to the financial statements, Semirara Coal Corporation (Semirara) had suffered significant recurring losses that resulted in a cumulative deficit of ₱4 billion as of December 31, 1999, before the effect of the quasi-reorganization which eliminated ₱3.7 billion in deficit. Semirara's current liabilities of ₱1.7 billion exceeded its current assets by ₱1.4 billion as of December 31, 1999. The current financial position of Semirara indicates that sufficient cash flows has to be generated to finance its operations, fully service its maturing obligations and ensure success of future operations. However, as also described in Note 1, Semirara's management has been undertaking measures to address the foregoing conditions.

As more fully discussed in Note 1 to the consolidated financial statements, the 1997 financial crisis that hit the Asian region continued to affect the Philippine economy in general and real estate industry in particular throughout 1999. Accordingly, the operations of DMCI Project Developers, Inc. (PDI) have been affected through substantial reduction in real estate prices, increase in construction and development costs, and lower sales volume, slower collection of receivables, restricted availability of credits, and tight working capital. However, PDI's management is currently undertaking measures that will ensure feasibility of its operations, to enable the PDI to meet its various commitments relative to its existing real estate development projects, fully service its liabilities and recover its investments. Management also believes that with the stabilization of the Philippine economy, the real estate industry might gradually improve which could translate to positive results on the PDI's operations.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

PTR No. 1874139
January 3, 2000
Makati City

May 15, 2000

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Stockholders and the Board of Directors
DMCI Holdings, Inc.
DACON Building, 2281 Pasong Tamo Extension
Makati City

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

LAURA SUAREZ ACUZAR
Partner
CPA Cert. No. 23390
PTR No. 1874139
January 3, 2000
Makati City

May 15, 2000

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	1999	1998
ASSETS		
Current Assets		
Cash and cash equivalents	**₱796,124,297**	₱790,814,535
Receivables - net (Note 3)	**4,545,941,893**	5,293,431,513
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 4)	**91,591,756**	22,086,603
Inventories - net (Note 5)	**325,336,498**	369,543,467
Prepaid expenses and other current assets (Note 6)	**115,254,163**	138,308,486
Total Current Assets	**5,874,248,607**	6,614,184,604
Real Estate Held for Sale and Development (Notes 7 and 17)	**2,776,836,286**	2,604,261,873
Investments (Note 8)	**1,741,670,605**	2,235,194,032
Property, Plant and Equipment - net (Note 9)	**4,262,224,782**	4,990,230,296
Deferred Charges and Other Assets - net (Note 10)	**998,079,542**	551,773,731
	₱15,653,059,822	₱16,995,644,536
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Note 11)	**₱658,015,751**	₱409,398,130
Accounts payable and accrued expenses (Note 12)	**3,162,914,322**	3,082,288,516
Acceptances and trust receipts payable (Notes 5, 9 and 15)	**402,793,349**	627,088,755
Income tax payable	**53,314,554**	35,333,431
Payables to landowners (Note 13)	**315,304,488**	366,906,429
Current portion of subscriptions payable (Note 8)	**–**	180,000,000
Dividends payable (Note 19)	**69,467,139**	27,032,000
Payables to affiliated companies (Note 17)	**131,935,987**	60,873,350
Total Current Liabilities	**4,793,745,590**	4,788,920,611
Non-Current Liabilities - net of current maturities (Note 15)	**793,670,063**	766,978,375
Subscriptions Payable - net of current portion of ₱180,000,000 in 1998 (Note 8)	**183,750,000**	113,124,750
Customers' Deposits	**30,484,171**	82,766,152
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts (Note 4)	**700,775,346**	1,442,016,809
Deferred Credits (Note 14)	**1,035,118,639**	1,117,057,412
Minority Interest	**489,418,311**	516,173,552
Stockholders' Equity		
Capital stock (Note 19)	**2,257,894,000**	2,257,894,000
Additional paid-in capital (Note 19)	**4,732,946,596**	4,897,920,095
Retained earnings (Note 20)	**1,043,803,598**	1,153,190,488
	8,034,644,194	8,309,004,583
Less preferred shares held in treasury (Note 19)	**(408,546,492)**	(140,397,708)
	7,626,097,702	8,168,606,875
	₱15,653,059,822	₱16,995,644,536

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	1999	1998	1997
REVENUES			
Construction contracts	**₱5,960,197,140**	₱8,096,606,146	₱8,273,342,694
Coal sales (Note 22)	**758,239,076**	873,549,381	421,233,388
Real estate sales	**45,377,908**	71,202,378	167,555,003
Merchandise sales	**35,222,826**	19,319,698	148,229,583
Interest and others (Note 21)	**365,866,472**	529,393,881	528,397,711
	9,590,071,484	9,590,071,484	9,538,758,379
COSTS AND EXPENSES			
Contract costs and expenses	**5,211,590,284**	6,951,767,057	6,793,460,374
Cost of coal sold	**705,529,487**	849,096,019	678,199,100
Real estate costs	**45,029,813**	54,178,892	100,438,024
Cost of merchandise sold	**21,330,545**	8,800,176	122,028,800
Equity in net losses (earnings) of unconsolidated affiliated companies, real estate joint ventures, and unincorporated construction joint ventures (Note 8)	**1,860,707**	392,323,984	(64,631,318)
General and administrative	**779,775,303**	591,095,187	586,625,544
Provisions for probable losses on assets and other charges	**199,217,406**	107,659,141	347,432,306
	6,964,333,545	8,954,920,456	8,563,552,830
INCOME BEFORE INCOME TAX	**200,569,877**	635,151,028	975,205,549
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)			
Current	**161,659,091**	150,509,713	176,045,823
Deferred	**(82,975,150)**	128,931,868	198,375,940
	78,683,941	279,441,581	374,421,763
INCOME BEFORE MINORITY INTEREST	**121,885,936**	355,709,447	600,783,786
MINORITY INTEREST	**45,636,489**	(47,187,412)	102,261,681
NET INCOME	**₱167,522,425**	₱308,522,035	₱703,045,467
Earnings Per Common Share			
Basic	**₱0.09**	₱0.09	₱0.28
Diluted (Note 19)	**0.08**	0.08	0.26

* Recomputed based on issued common shares after stock dividends declared on ~~June 30, 1997~~.

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**₱**	₱308,522,035	₱703,045,467
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		890,075,378	772,999,509
Equity in net losses (earnings) of affiliated companies, real estate joint venture, and unincorporated construction joint ventures		392,323,984	(64,631,318)
Provisions for:			
Deferred income tax		128,931,868	198,375,940
Losses on abandoned joint venture		9,289,736	–
Decline in value of marketable equity securities		–	19,301,362
Income (losses) applicable to minority interest		47,187,412	(102,261,681)
Gain on sale of:			
Investments		(57,198,507)	(9,556,967)
Marketable equity securities		(29,573,422)	–
Property, plant and equipment		(18,891,579)	(4,486,245)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables - net		(165,896,836)	(1,927,475,230)
Inventories - net		25,170,048	(161,916,472)
Prepaid expenses - net		(88,609,847)	(5,940,803)
Increase (decrease) in:			
Accounts payable and accrued expenses		(240,640,527)	2,098,117,344
Acceptances and trust receipts payable		151,654,266	218,356,579
Income tax payable		(9,278,198)	(25,338,734)
Payables to affiliated companies		(143,128,502)	212,259,918
Billings in excess of costs and estimated earnings on uncompleted contracts - net		(783,753,926)	771,033,953
Deferred revenues and credits - net		(33,048,508)	–
Net cash provided by operating activities		383,134,875	2,691,882,622
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of:			
Investments		136,659,190	41,613,038
Marketable equity securities		60,704,651	–
Property, plant and equipment		38,712,091	9,159,005

(Forward)

	Years Ended December 31		
	1999	1998	1997
Additions to:			
Property, plant and equipment	**₱**	(₱1,442,754,178)	(₱3,192,574,004)
Real estate held for sale and development		(272,579,436)	(1,010,148,080)
Investments - net		(249,808,689)	(113,175,887)
Marketable equity securities		–	–
Funds held by custodian bank		(13,283,907)	(12,851,015)
Decrease (increase) in deferred charges and other assets - net		55,713,703	(202,700,822)
Net cash used in investing activities		(1,686,636,575)	(4,480,677,765)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Non-current liabilities - net		578,680,782	188,297,593
Notes payable - net		67,344,515	163,771,039
Proceeds from reissuance of preferred shares held in treasury		45,143,181	–
Acquisition of preferred shares to treasury		(181,057,908)	–
Dividends paid on preferred shares		(97,976,950)	(48,000,000)
Dividends paid to minority interest		(32,000,000)	(10,750,000)
Increase (decrease) in minority interest - net		(613,157)	573,062,375
Proceeds from issuance of capital stock - net		–	2,328,966,774
Net cash provided by financing activities		379,520,463	3,195,347,781
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(923,981,237)	1,406,552,638
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,714,795,772	308,243,134
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱**	₱790,814,535	₱1,714,795,772

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Current Financial Conditions and Status of Operations**

Current Financial Conditions of AG&P

In recent years, AG&P had incurred significant recurring losses that resulted in a cumulative deficit of ₱2.2 billion as of December 31, 1999. This deficit amount is before the effect of the quasi-reorganization which eliminated ₱1.8 billion in deficit and the effect of the realized revaluation increments in property of about ₱515 million transferred to retained earnings resulting from the disposals of the said assets. Furthermore, the negative cash flows that have been generated from operations greatly affected AG&P's ability to settle its maturing obligations. Accordingly, AG&P's current liabilities of ₱1.9 billion exceeded its current assets by ₱1.1 billion as of December 31, 1999. Total interest charges incurred in 1999 on AG&P's interest bearing obligations of ₱1.5 billion as of such date, amounted to ₱127 million excluding the ₱95 million interest that was waived in recognition of AG&P's deteriorating financial condition by the Company, AG&P's major stockholder. AG&P's current financial position indicates that sufficient cash flow has to be generated to finance its operations, fully service its maturing obligations and ensure success of future operations.

In view of the foregoing conditions, the management of AG&P has been continuously undertaking measures geared towards ensuring the feasibility of its future operations and fully servicing its maturing obligations. In the past few years, the following measures, among others, had been undertaken by AG&P's management to address primarily its deteriorating liquidity and improve its financial viability:

a. Investment by the Company and Buenaventura Filamor Echauz Financial Services (BFE) into AG&P in 1997 with ₱400 million in equity and ₱782 million in advances;
b. Proposed merger between AG&P and AGP Industrial Corporation (AGPI), which is currently on hold. Inasmuch as AGPI is a public company, the said merger was contemplated to ultimately provide AG&P access to the equity market for its much needed capital and liquidity.
c. Implementation of a quasi-reorganization and capital restructuring in 1997 as a preparatory step to AG&P's going public through the proposed merger as mentioned in item (b) above; and,
d. Dispositions and rationalization of certain non-strategic assets which generated an aggregate amount of ₱1.2 billion from 1997 up to 1999.

However, difficult economic conditions brought about by the financial crisis that hit the Asian region in 1997 and persisted through the early part of 1999, deprived AG&P of substantial size construction and fabrication contracts during the period. Consequently, inspite of the foregoing measures undertaken, AG&P's operations in 1999 still registered a net loss of ₱209 million resulting primarily from the considerable reduction in gross revenues from construction and fabrication contracts and the substantial interest and financing charges incurred.

Accordingly, on February 1, 2000, AG&P's stockholders approved a rehabilitation plan, the thrust of which is to bring down the level of borrowings through asset disposals and equity infusion, as follows:

a. *Disposition of assets*. The plan calls for selling a large portion of the Batangas yard or alternatively the whole 40.5 hectares, provided that AG&P would continue to have access to and continued use of at least a 20 hectare area through a leaseback arrangement. Additionally, the disposals of the remaining non-strategic assets, as identified in the rehabilitation plan, will be vigorously pursued. AG&P is expected to generate ₱1.5 billion from these dispositions which will be used substantially to pay off its outstanding loans leaving a balance of ₱351 million by the end of 2000. Consequently, interest charges in 2001 are expected to substantially drop to ₱42 million.

b. *Increase in capitalization*. The rehabilitation plan also calls for an additional equity infusion of ₱200 million in 2000. This equity infusion will not only provide additional liquidity to AG&P but will also help improve its capital base, which is necessary to enable AG&P to secure large construction and fabrication contracts.

As of April 12, 2000, no asset identified for disposal has been sold. The increase in capitalization, on the other hand, was approved by the stockholders on February 1, 2000 simultaneous with the approval of the rehabilitation plan.

<u>Status of Mining Operations of Semirara</u>

Semirara had suffered significant recurring losses from mining operation resulting from high production cost and operating expenses that resulted in a cumulative deficit of ₱3,978,927,613 as of December 31, 1999. This deficit amount is before the effect of the quasi-reorganization that eliminated the deficit as of December 31, 1997 amounting to ₱3,671,687,193 (see Note 10). Semirara's current liabilities of ₱1.7 billion exceeded its current assets by ₱1.4 billion as of December 31, 1999. Of the total current liabilities as of December 31, 1999, ₱950 million represents liabilities to affiliates and to various local banks (includes current portion of long-term debt) that bears interest. Total interest charges incurred on these liabilities in 1999 amounted to ₱171 million. The financial condition of Semirara indicates that sufficient cash flow has to be generated to finance its operations, fully service its maturing obligations and ensure success of future operations.

Semirara's management plans in 1998 were to carry on the mining operation at the Unong mine site only up to the end of 1999. However, Semirara's management determined that there are still recoverable coal reserved at Unong mine site which are part of the 1999 budgeted coal production. In this view, Semirara intends to continue the mining operation at Unong mine site until at least the dry season of year 2000. The remaining coal at the pit bottom has been rendered uneconomical to mine due to flooding and siltation. The mine plan for the year 2000 includes coal outside the original ultimate limit of the Unong mine. Semirara's future coal production after 1999 would be largely sourced from the coal reserves of the Panian mine site, which has an estimated recoverable coal reserves of about thirty-two (32) metric tons (MT) based on the study conducted by a third party consultant dated August 30, 1990. On August 12, 1999, Semirara obtained from the Department of Environment and Natural Resources (DENR) the Environmental Compliance Certificate (ECC) for the Panian mine site operation. In 1999, Semirara already started the predevelopment works in Panian mine site that includes road construction, levelling and widening works, area expansion and levelling for coal stockpiling, area improvements for office and warehouse facilities and additional housing units, and installation of electrical lines and other works. It also includes excavation of waste in the open pit mine to expose coal in commercially viable quantity. Semirara was able to produce about 1,000 MT of coal in 1999 and about 400,000 MT of coal in the first quarter of 2000. Starting January 2000, Semirara declared Panian mine site in commercial operation.

In view of the eventual abandonment of Unong mine site, Semirara invested about ₱227 million in 1999 and ₱1.1 billion in 1998 in conventional mining equipment (trucks and shovels) for eventual use in the Panian mine operation. With the end in view of maximizing the capacities of the mine site and optimizing the mines' economic returns, Semirara's management plan is to use both the continuous (bucketwheel excavators and conveyor belts) and conventional equipment at Panian mine operation. Any remaining unutilized continuous mining equipment will be sold or used for other productive activities.

On July 1, 1998, the SEC approved the Company's quasi-reorganization with the objective of eliminating the accumulated deficit as of December 31, 1997 amounting to ₱3,671,687,193 using the balances of the revaluation increment in property, reduction surplus, additional paid-in capital and a portion of the premium on preferred stock converted to common stock as of such date. The quasi-reorganization included the following procedures:

(a) contribution by DMCI-HI as additional paid-in capital of the Company of a portion of the outstanding long-term debt amounting to ₱ 986,630,289 (see Note 9);

(b) generation of reduction surplus from the Company's common stock through the following steps:

 (i) increased the authorized stock from ₱2,686,075,339.17 divided into 268,607,533,917 shares at ₱0.01 par value per share to ₱ 2,686,340,260 divided into 268,634,026,000 shares, at a par value of ₱0.01 per share and eliminated the existing fractional shares . Of the total increase of about ₱264,921 or 26,492,083 shares at ₱0.01 par value per share, bout ₱78,440 or 7,843,994 shares at ₱0.01 par value per share or about 30% was subscribed by DMCI-HI by way of debt to equity conversion;

 (ii) increased the par value of the stock from ₱0.01 per share to ₱2.1283 per share thereby reducing the number of authorized shares from 268,634,026,000 shares to 1,262,200,000 shares and the issued shares from 261,987,345,100 to 1,230,970,000;

 (iii) decreased the par value of the common stock from ₱ 2.1283 to ₱1.00 per share thereby generating a reduction surplus of ₱1,388,903,451.

(c) elimination of the accumulated deficit of ₱3,671,687,193 as of December 31, 1997 against the following items:

(i) revaluation increment in property of ₱1,296,150,325 as of December 31, 1997; the elimination of a portion of the December 31, 1997 accumulated deficit against the revaluation increment was approved by the SEC on January 18, 1998;

(ii) reduction surplus of ₱1,388,903,451 generated by decreasing the par value per common share from ₱ 2.1283 to ₱ 1.00 as mentioned in item (b.iii); and

(iii) additional paid-in capital of ₱986,630,289 arising from the contribution by DMCI-HI to the Company of a portion of the outstanding long-term debt as mentioned in item (a);

(iv) a portion amounting to ₱3,128 of the premium on preferred stock converted to common stock.

Pursuant to the SEC approval of the foregoing quasi-reorganization, 222 common shares representing fractional shares arising from the interim changes in par value were dropped-off and were held in treasury; payable out of the Company's any unrestricted retained earnings (see Note 11).

Also, on July 1, 1998, the SEC approved the increase in the Company's authorized capital stock from ₱1,412,200,000 (consisting of ₱150,000,000 preferred stock, divided into 15,000 shares at ₱10,000 par value per share, and ₱1,262,200,000 common stock, divided into 1,262,200,000 shares at ₱1.00 par value per share - resultant authorized capital stock of the Company after the effects of the quasi-reorganization which was approved also on such date) to ₱1,812,200,000 (consisting of ₱150,000,000 preferred stock, divided into 15,000 shares at ₱10,000 par value per share, and ₱1,662,200,000 common stock divided into 1,662,200,000 shares at ₱1.00 par value per share). Out of such increase in authorized capital stock, 400,000,000 common shares at a par value of ₱1.00 per share or an aggregate par value of ₱400 million was subscribed by DMCI-HI; of which subscription, ₱100 million was paid by way of debt-to-equity conversion (see Note 9).

Recent Economic Conditions

The operations of PDI have been affected and may continue to be affected in the foreseeable future by the adverse economic conditions, especially in relation to persistent currency volatility and the general deterioration of the economies of countries in the Asia Pacific region that continued to affect the Philippine economy throughout 1999.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements included the accounts of the Company and the following subsidiaries:

		Percentage of Ownership		
Subsidiary	**Principal Activity**	**1999**	1998	1997
D.M. Consunji, Inc. (DMCI)	General Construction	**100.00**	100.00	100.00
DMCI Project Developers, Inc. (PDI)	Infrastructure and Real Estate Development	**100.00**	100.00	100.00
Semirara Cement Corporation	Cement Manufacturing	**100.00**	100.00 *	–

Semirara Coal Corporation (Semirara – see Note 2)	Coal Mining	**74.40**	74.40	66.08
Wire Rope Corporation of the Philippines (Wire Rope)	Manufacturing	**61.70**	16.02	–
Riviera Land Corporation (Riviera)	Real Estate	**50.89**	34.00	–

* Organized on January 29, 1998; has not yet started commercial operations.

The financial statements of DMCI included the accounts of its consolidated subsidiaries; namely: DMCI International, Inc. (DMCII)(100% owned), DMCI-Laing Construction, Inc. (DMCI-Laing)(60% owned; incorporated on April 18, 1997), Obayashi Philippines Corporation (56% owned), Beta Electric Corporation (Beta Electric)(50.1% owned), and Acotec Panel Manufacturing, Inc. (Acotec) [50% owned by DMCI; with the other 30% owned by PDI in 1999; incorporated on January 17, 1997; 52.41% and 32.66% owned by DMCI and PDI, respectively, starting April 15, 1999; corporate name changed to "Contech Products South Corporation" as approved by the Securities and Exchange Commission (SEC) on February 12, 1999]. On December 22, 1998, DMCI divested its 53% shareholding in Asia Industries Machinery and Equipment Corporation (AIMHEC). Consequently, the accounts of AIMHEC were already excluded from the consolidated financial statements as of and for the years ended December 31, 1999 and 1998.

The 1999 financial statements of the Company included the account of its wholly owned subsidiary Contech Products Corporation (Contech), while the 1998 financial statements of PDI consisted solely of PDI's accounts and the financial statements as of and for the year ended December 31, 1997 included the accounts of its wholly- owned subsidiary Pasong Tamo Properties, Inc. (PTPI), which in 1998 was assigned by PDI to DMC-Urban Property Developers, Inc. (UPDI), an affiliated company. In 1999, the minority stockholders of Contech assigned all of their interest in Contech to PDI, which resulted to PDI's 100% ownership of Contech. On June 17, 1997, the SEC approved the merger among PDI and its eight (8) wholly owned subsidiaries in accordance with the terms and conditions of the Plan of Merger executed by the parties. The Plan of Merger provided for, among others, the merger among Bahag-Hari Land Developers, Inc., Bambang Development Corporation, Ususan Development Corporation, Taguig Land Development Corporation, Hagonoy Development Corporation, Matina Realty and Development Corporation, Marimar Land Developers, Inc., Kamagong Realty and Land Development Corporation and PDI, with PDI as the surviving corporation. In 1996, these companies were included as consolidated subsidiaries of PDI.

The supplemental information on the Company's consolidated subsidiaries as of and for the years ended December 31, 1999, 1998, and 1997 are presented as follows (amounts in millions of Philippine pesos):

	DMCI and Subsidiaries			**PDI and Subsidiaries**			**Semirara**		
	1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997
Total assets	**₱8,383**	₱8,383	₱8,319	**₱4,284**	₱4,284	₱4,527	**₱3,506**	₱3,506	₱2,598
Total liabilities	**5,105**	5,105	5,550	**2,022**	2,022	1,908	**2,248**	2,248	1,367
Gross revenues	**8,463**	8,463	8,628	**175**	175	325	**928**	928	431

All significant intercompany transactions and balances among the subsidiaries are eliminated in the process of consolidation.

Revenue and Cost Recognition

Construction. Revenues from construction contracts are recognized on the percentage of completion method of accounting and are measured principally on the basis of the estimated completion of a physical proportion of the contract work. Contracts to manage, supervise, or coordinate the construction activity of others and those contracts wherein the materials and services are supplied by contract owners are recognized only to the extent of the contracted fee revenue.

Contract costs included all direct material and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenues. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined. Profit incentives are recognized as revenues when their realization is reasonably assured.

The asset, “Costs and estimated earnings in excess of billings on uncompleted contracts,” represents total costs incurred and estimated earnings recognized in excess of amounts billed. The liability, “Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts,” represents billings in excess of total contract costs incurred and estimated earnings recognized. Contract retentions are included in “Construction contracts receivable” account and included among the “Receivables” in the assets section of the consolidated balance sheets.

Real Estate. Real estate sales, which consisted primarily of the sale of condominium units, where PDI has material obligations under the sales contracts to provide improvements after the property is sold are accounted for under the percentage of completion method. Under this method, the gain on sale is recognized as the related obligations are fulfilled. Revenues allocable to the unfulfilled obligations are deferred and presented as part of the “Deferred Credits” account in the liabilities section of the consolidated balance sheets. If any of the criteria under the percentage of completion method is not met, the deposit method is applied until such criterion is met.

Under the deposit method, revenue recognition is deferred until the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are considered as “Customers’ Deposits” and shown in the liabilities section of the consolidated balance sheets.

Real estate costs that relate to the acquisition, development, improvement and construction of the real estate projects are capitalized. Interest costs are capitalized while the development and construction of the real estate projects is in progress.

Cash Equivalents

All highly liquid instruments maturing within three (3) months or less from the date of acquisition are considered as cash equivalents.

Allowance for Losses on Real Estate Contracts Receivable

Specific valuation allowances are provided by PDI for real estate contracts receivable when collection becomes doubtful and the amounts expected to be received in settlement of the contracts receivable are less than the amounts due. No significant losses were anticipated on real estate contracts receivable as of December 31, 1999 and 1998; accordingly, no allowance was provided.

Inventories

Inventories are stated at the lower of cost or market. The costs of coal inventory and pre-formed concrete panels are determined using the weighted average production cost method; construction materials, parts and supplies, spare parts held for sale, and industrial raw materials by the first-in, first-out method; installation materials, supplies and parts by the moving average method; and equipment units held for sale by the specific identification method.

Real Estate Held for Sale and Development

Real estate held for sale and development is carried at the acquisition costs of the real estate properties plus the costs incurred for the development, improvement and construction of the real estate projects. Valuation allowances are provided for real estate held for sale and development when the net realizable values of the properties are less than their carrying costs. No significant decline was expected in the net realizable values of the outstanding real estate held for sale and development as of December 31, 1999 and 1998; accordingly, no allowance was provided.

Investments

Investments in shares of stock and in joint ventures, in which the Company and its subsidiaries hold at least 20% ownership interest, are accounted for by the equity method. The details of the investee companies are as follows:

	Percentage of Ownership			
Investment in	**1999**		1998	1997
Shares of Stock:				
Contech Products Corporation	**50.00**		50.00	50.00
Eco Process & Equipment, Incorporated	**50.00**	*	50.00	–
Raco-Haven Automation Philippines, Inc.	**50.00**		50.00	50.00
Bachy Soletanche Philippines Corporation (BSPC)	**49.00**		49.00	49.00
Vulcan Materials Corporation	**49.00**		49.00	49.00
CSN Properties, Inc.	**45.00**	**	45.00	–
Atlantic, Gulf, and Pacific Company of Manila, Incorporated (AG&P - see Note 8)	**40.00**		40.00	40.00
Subic Water and Sewerage Company, Inc. (Subic Water - see Note 8)	**40.00**		40.00	40.00
Monarca Greenworld Corp. (Monarca)	**35.00**		35.00	35.00
Constress Philippines, Inc.	**33.10**		33.10	33.10
Freyssinet (Davao), Inc.	**33.06**		33.06	33.06
Freyssinet Philippines, Inc. (FPI)	**31.90**	***	31.90	33.05
Universal Rightfield Property Holdings, Inc. (URPHI - see Note 8)	**25.02**		25.02	34.93
Montecito Properties Incorporated	**25.00**		25.00	25.00
Metro Tagaytay Land Company, Inc. (MTLCI - see Note 8)	**22.00**		22.00	22.00

Freyssinet Glassfiber & Lightweight Concrete, Inc.	– ***	–	33.06
Freyssinet Manila, Inc.	– ***	–	33.06
Freyssinet Post Tensioning and Systems, Inc.	– ***	–	33.06
Freyland Properties, Inc.	– ***	–	26.10
Pacopandana Construction & Development Corporation	– ***	–	23.10
AIMHEC	– ****	–	53.00
Integrated Asia Corporation (Integrated Asia)	**–** *****	–	50.10
Real Estate Joint Ventures:			
Diamond Bay Tower Project	**20.00**	20.00	20.00
West Tower Project	**20.00**	20.00	20.00
Unincorporated Construction Joint Ventures:			
Subic Water Construction Joint Venture (SWCJV)	**50.00**	50.00	50.00
DMCI/WPC Construction Joint Venture	**50.00** *	50.00	**–**

* Newly organized affiliated company and unincorporated construction joint venture in 1998.
** Newly acquired affiliated companies in 1998.
*** Companies which were merged, with FPI as the surviving corporation; merger was approved by the SEC on October 31, 1998 (see Note 8).
**** Sold to minority stockholders on December 22, 1998; excluded from the consolidated financial statements as of and for the year ended December 31, 1998 (see Note 8).
***** Corporate life shortened to February 15, 1998; excluded from the consolidated financial statements as of and for the year ended December 31, 1997 (see Note 8).

Under the equity method, investments in shares of stock and in unincorporated joint ventures are carried at cost adjusted principally for the Company and its subsidiaries' equity in the net earnings or losses of the investee companies and joint ventures from dates of acquisition. Equity in net earnings or losses is also adjusted for the five (5) year straight-line amortization of the difference between the cost of the investments and the Company and its subsidiaries' equity in the underlying net assets of the investee companies at dates of acquisition. Any increase or decrease in the Company and its subsidiaries' ownership percentage and equity in the net assets of the subsidiaries or affiliated companies, resulting from the issuance of shares of stocks by the subsidiaries or affiliated companies, are credited or charged to additional paid-in capital. Unrealized intercompany profits are eliminated to the extent of the Company or its subsidiaries' proportionate share thereof.

Other investments in shares of stock are carried at cost.

An allowance is set up for any substantial and presumably permanent decline in the value of such investments.

Investments in real estate are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the properties.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortization. Substantially all of the property, plant and equipment of Semirara acquired up to April 30, 1997, except mining properties and mine exploration and development costs which are stated at cost, are stated at appraised values as determined by an independent firm of appraisers as of that date. Subsequent additions are stated at cost. Depreciation and amortization of property, plant and equipment, except for continuous mining equipment and mining properties, are computed on the straight-line method over the estimated useful lives of the properties (or the life of the mine, whichever is shorter). Starting January 1, 1998, Semirara changed the method of depreciation of continuous mining equipment from unit of production to straight-line method over their estimated remaining useful lives as of that date. The change in method of depreciation which is a partial or complete recognition of the estimated future useful life benefits of these equipment was considered as a change in accounting estimate.

Minor repairs and maintenance costs are charged to income as incurred; significant renewals and improvements are capitalized. When assets are retired or otherwise disposed of, the cost, revaluation increment and the related accumulated depreciation and amortization on cost and on the revaluation increment are removed from the accounts and any resulting gain or loss is reflected in income for the year.

Deferred Mine Exploration and Development Costs
Expenditures for mine exploration and development activities on mining properties are deferred as incurred. These deferred costs are charged to expense when the results of the exploration activities are determined to be negative or not commercially viable. When exploration results are positive or commercially viable, the exploration expenses and subsequent development expenses are capitalized and carried as “Deferred mine exploration and development costs” under the “Deferred Charges and Other Assets” account in the consolidated balance sheets. Upon the start of commercial production, such costs are accordingly transferred to the “Property, Plant and Equipment” account and amortized using the straight-line method over the lives of the respective mines’ estimated recoverable reserves.

Stripping Costs
Stripping costs are capitalized and amortized based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the standard stripping ratio established in accordance with the survey conducted on the mine.

Pre-operating Costs and Expenses
Expenses incurred prior to the start of the Company and PDI’s commercial operations are capitalized and amortized over five (5) years.

Costs and expenses incurred by Semirara prior to the start of its commercial operations, net of incidental revenues earned, are capitalized and allocated between the Unong and Panian Mines in relation to these mines’ respective estimated reserves. The allocated preoperating costs and expenses are separately amortized upon the start of commercial production of the mine, using the straight-line method over the lives of the respective mines’ estimated recoverable reserves.

Deferred Selling Expenses
Direct selling expenses incurred by PDI in connection with the sale of condominium units are deferred and charged to operations when the related revenues are recognized.

Income Taxes
Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to: (a) differences between the financial reporting bases of assets and liabilities and their related income tax bases; (b) carryforward benefit of the minimum corporate income tax (MCIT); and, (c) net operating loss carryover (NOLCO). Deferred income tax assets and liabilities are measured using the income tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on the

deferred income tax assets and liabilities arising from any change in the applicable income tax rates is included in the provision for deferred income tax for the year.

An allowance is provided for deferred income tax assets which are not reasonably expected to be realized in the future. Any change in the valuation allowance on deferred income tax assets is included in the computation of the provision for deferred income tax for the year.

As more fully discussed in Note 16, construction contracts entered into and started on January 1, 1998 are reported for income tax purposes using the percentage of completion method of accounting; whereas uncompleted contracts already started prior to January 1, 1998 may still be reported for tax purposes under the completed contract method of accounting; provided certain conditions are met.

Real estate sales with collections, in the year of sale, of 25% or more of the contracted amount are subject to income tax using the full accrual method; while those contracts with collections in the year of sale of less than 25% of the contracted amount are subject to income tax using the installment contract method.

Under the provisions of Republic Act No. 7227, DMCII, being a Subic Bay Free Port Zone enterprise, is subject to a tax of 5% on gross income, in lieu of all other taxes.

Foreign Currency Transactions

Exchange gains or losses arising from foreign currency transactions are credited or charged to current operations.

Retirement Costs

Retirement costs are determined using the projected unit credit method for DMCI and attained age cost method for Semirara and Beta Electric. In compliance with Statement of Financial Accounting Standards No. 24, “Retirement Benefits Costs,” past service costs, experience adjustments, and the effects of changes in actuarial assumptions are amortized over the expected working lives of employees.

Earnings Per Common Share

Earnings per common share is computed by dividing net income after deducting the preferred dividend requirements, by the weighted average number of common shares and potential common shares outstanding during the year adjusted to give retroactive effect to any stock dividends declared during the year. Potential common shares consist of shares potentially issuable upon conversion of the convertible preferred shares. Fully diluted earnings per share assumed the conversion of the outstanding convertible preferred shares.

3. Receivables

This account consisted of receivables from:

	1999	1998
Contracts:		
Construction (including retention receivable on uncompleted contracts of		

₱__ in 1999 and		
₱1,222,417,186 in 1998)	**₱2,359,827,043**	₱2,871,306,971
Real estate	**18,419,737**	47,278,833
Trade	**302,558,875**	255,376,284
Subcontractors and suppliers	**564,577,887**	684,228,834
Related parties (see Notes 8 and 17):		
Notes receivable from AG&P	**807,606,318**	724,589,736
Other accounts with affiliated companies and other related parties	**832,476,415**	544,891,498
Installment and others	**430,277,744**	419,063,632
	5,546,735,788	5,546,735,788
Less allowance for doubtful accounts	**285,266,204**	253,304,275
	₱6,162,583,919	₱5,293,431,513

Real estate contracts receivable amounting to ₱18,419,737 and ₱47,278,833 as of December 31, 1999 and 1998, respectively, principally consisted of the uncollected balance from the assignment to third parties in 1997 of PDI's rights and interest in a real estate project for a total consideration of about ₱195 million and sales of PDI's allocated units in a real estate project.

Notes receivable from AG&P of ₱748,535,405 and ₱724,589,736 as of December 31, 1999 and 1998, respectively, bear interest at 15% per annum and an additional 12% per annum on such overdue amount computed from maturity date to the date that the overdue amount is paid in full. However, on January 21, 1998, the Company agreed to align the interest rate of 15% per annum to the interest rate being charged by AG&P's creditor banks and waived the 12% penalty which was supposed to be charged on the unpaid loans beyond the 90-day term as provided for in the promissory notes. The loans are partly collateralized by a participation in the mortgage trust indenture covering substantially all of AG&P's existing real properties. As of December 31, 1999, all of the notes receivable from AG&P have already matured and were due for collection.

4. Costs, Estimated Earnings, and Billings on Uncompleted Contracts

The details of the costs, estimated earnings, and billings on uncompleted contracts are as follows:

	1999	1998
Total costs incurred	**₱**	₱13,623,249,351
Add estimated earnings		2,480,438,240
		16,103,687,591
Less total billings (including unliquidated advances from contract owners of ₱______ in 1999 and ₱1,478,913,827 in 1998)		17,523,617,797
	₱	(₱1,419,930,206)

The foregoing balances are reflected in the accompanying consolidated balance sheets under the following accounts:

	1999	1998
Costs and estimated earnings in excess of billings on uncompleted contracts	**₱**	₱22,086,603
Billings in excess of costs and estimated earnings on uncompleted contracts		(1,442,016,809)

₱	(₱1,419,930,206)

5. **Inventories**

The details of inventories are as follows:

	1999	1998
Stocks held for sale:		
Coal inventory	**₱43,965,464**	₱55,924,859
Pre-formed concrete panels	**–**	3,983,215
Equipment units and spare parts	**206,007,155**	–
Construction and installation materials, industrial raw materials, parts and supplies	**141,024,362**	317,052,713
	397,076,463	376,960,787
Less allowance for inventory obsolescence	**64,205,606**	58,629,593
	332,870,857	318,331,194
Equipment units, materials and spare parts in transit	**3,039,741**	51,212,273
	₱329,831,116	₱369,543,467

Under the terms of the agreements covering liabilities under trust receipts and bank guarantees, certain inventories amounting to about ₱__ in 1999 and ₱9.7 million in 1998 have been released to Beta Electric in trust for the banks. Beta Electric is accountable to the banks for the trusteed inventories or their sales proceeds.

6. **Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following:

	1999	1998
Value added input taxes	**₱–**	₱77,498,250
Creditable taxes withheld	**63,183,558**	38,043,607
Prepaid expenses	**37,183,768**	13,614,908
Prepaid import charges	**–**	6,204,201
Deposits and others	**7,045,438**	2,947,520
	₱107,412,764	₱138,308,486

7. **Real Estate Held for Sale and Development**

Real estate held for sale and development consisted of the following assets of PDI:

	1999	1998
Real estate under development	**₱509,883,056**	₱529,537,978
Land held for future development (see Note 13)	**2,093,678,361**	2,074,723,895
	₱2,603,561,417	₱2,604,261,873

PDI has a Memorandum of Agreement (MOA) with URPHI starting February 15, 1996 for the development of a real estate project. The MOA stipulated that PDI contributed certain parcels of land at an agreed valuation of about ₱60 million which URPHI shall develop into high-rise, mixed used condominiums. In accordance with the MOA, URPHI and PDI shall share equally in the costs of the project. The total committed contribution by PDI under this agreement amounted to about ₱935 million. As of December 31, 1999 and 1998, the total cost incurred by PDI on the said real state project amounted to about ₱328 million, respectively; which were included as part of "Real estate under development" as shown above. As of May 15, 1999, the development activities of the real estate project has been temporarily suspended and PDI and URPHI have yet to obtain from the House and Land Use Regulatory Board a license to sell for the whole project.

As of December 31, 1999, PDI's share in the estimated costs to complete its various real estate projects amounted to about ₱607 million.

PDI has agreements with URPHI for the development of two (2) real estate projects. The agreements provided that PDI contributed 50% of the cost of certain parcels of land amounting to about ₱180.7 million as of December 31, 1998 which URPHI shall develop into condominium projects. In 1998, however, PDI and URPHI agreed to terminate the agreements for the development of the said real estate projects. As a result of the termination of the agreements, certain parcels of land costing about ₱230 million, which were titled to PDI were reclassified to "Land held for future sale and development" under the "Real Estate Held for Sale and Development" account in the 1998 consolidated balance sheet.

Land held for future development amounting to ₱2,074,723,895 as of December 31, 1998 included initial payments to real estate property owners amounting to ₱23,058,625 for the acquisition of certain real estate properties with a total contract price of about ₱39,229,050. The terms of the agreements provided that the deeds of absolute sale for the subject properties shall be executed only upon fulfillment by the property sellers of certain undertakings and conditions. These undertakings and conditions were complied by the property sellers as of December 31, 1999.

As of December 31, 1999, certain parcels of land with an aggregate carrying book value of ₱150,051,090 were mortgaged by PDI to guarantee various credit facilities granted to certain affiliated companies (see Note 17).

8. Investments

The details of this account are as follows:

	1999	1998
Shares of Stock:		
At equity:		
Acquisition cost:		
Balance at beginning of year	**₱1,471,210,749**	₱1,471,210,749
Additions during the year	**68,589,395**	68,589,395
Disposals during the year	**(145,278,376)**	(145,278,376)
Balance at end of year (subscriptions payable on which amounted to ₱________ in 1999 and ₱189,375,000 in 1998)	**1,394,521,768**	1,394,521,768
Accumulated equity in net earnings (losses):		
Balance at beginning of year	**179,248,153**	179,248,153
Disposals during the year	**(10,755,350)**	(10,755,350)
Equity in net earnings (losses) during the year	**(402,300,839)**	(402,300,839)
Balance at end of year	**(233,808,036)**	(233,808,036)
	1,160,713,732	1,160,713,732

Less allowance for probable losses	**(1,752,265)**	(1,752,265)
	1,158,961,467	1,158,961,467
At cost:		
Balance at beginning of year	**209,512,804**	209,512,804
Additions during the year	**59,026,807**	59,026,807
Disposals during the year	**(66,530)**	(66,530)
Balance at end of year (subscriptions payable on which amounted to ₱___________ in 1999 and ₱103,749,750 in 1998)	**268,473,081**	268,473,081
	1,427,434,548	1,427,434,548
Deposits on Future Subscriptions	**300,000,000**	300,000,000
Real Estate Joint Ventures:		
Acquisition cost:		
Balance at beginning of year	**87,740,000**	87,740,000
Additional contributions during the year	**4,000,000**	4,000,000
Balance at end of year	**91,740,000**	91,740,000
Accumulated equity in net losses:		
Balance at beginning of year	**–**	–
Equity in net losses during the year	**(2,572,953)**	(2,572,953)
Balance at end of year	**(2,572,953)**	(2,572,953)
	89,167,047	89,167,047
Less allowance for probable losses	**(16,759,141)**	(16,759,141)
	72,407,906	72,407,906
Unincorporated Construction Joint Ventures	**12,549,808**	12,549,808
Real Estate Properties:		
Land	**347,201,301**	347,201,301
Condominium units - net of accumulated depreciation of ₱_________ in 1999 and ₱3,523,293 in 1998	**75,600,469**	75,600,469
	422,801,770	422,801,770
	₱2,235,194,032	₱2,235,194,032

AG&P

On October 10, 1996, the Company, together with Buenaventura Filamor Echauz Financial Services (BFE), entered into a Memorandum of Agreement (amended on October 29, 1996) with AGP Industrial Corporation (AGPI) and Marubeni Corporation (Marubeni), AG&P's major existing shareholders as of such date, wherein which, the Company and BFE will invest ₱400 million into AG&P in exchange for 51% of its outstanding capital stock. The Company and BFE had fully paid the ₱400 million investment on January 7, 1997 and were issued on February 26, 1997, 1,144,877 Class A shares and 555,123 Class B shares by AG&P, both at a par value of ₱100 per share or an aggregate par value of ₱170 million as partial consideration for the investment. On March 17, 1997, AG&P issued 1,065,955 Class A shares and 55,301 Class B shares; both at ₱100 par value per share or an aggregate value of ₱112,125,600 in full consideration of the ₱400 million investment.

The Agreement also provided that the Company and BFE, subject to their business judgement, shall extend such advances, credit facilities or other funds to AG&P totalling ₱800,000,000, to be secured by AG&P's real estate properties, to enable AG&P to pay its trade creditors, or otherwise service its debt obligations. As of December 31, 1999, the Company's advances to AG&P which were presented as "Notes receivable from AG&P" in the "Receivables" account of the parent company balance sheets amounted to ₱724,589,736 (see Note 3).

Also, on October 29, 1996, AG&P, AGPI and Marubeni (collectively referred to hereafter as “existing shareholders”) together with the Company and BFE (collectively referred to hereafter as “investors”) executed a Shareholders’ Agreement whereby the parties have agreed, among others, on the following: (a) any of the investors or the existing shareholders of AG&P who may wish to transfer, sell or assign or otherwise dispose of all or any part of its shares to a bona fide third party shall first offer such shares to each of the other shareholders of AG&P by written notice except for the type of transfers specifically allowed under the Shareholders’ Agreement; (b) restriction on the declaration of dividends until AG&P has fully paid the advances made by any shareholder to AG&P; and, (c) vote in favor of and cause their respective nominee directors to vote in favor of a merger between AG&P and AGPI on an audited book-value for book-value basis without any premium added to the value of either corporation.

In furtherance of and to fully implement Section 6 of the Memorandum of Agreement dated October 10, 1996 relating to the merger between AG&P and AGPI, the contracting parties and Trans-Philippines Investment Corporation (TPIC), the majority shareholder of AGPI, also executed an Agreement to Approve Merger. The Agreement to Approve Merger provided that the Company and BFE recognize the debt to equity conversion of TPIC’s advances to AGPI into AGPI’s shares that will take place prior to the merger. As contained in the Agreement to Approve Merger, AGPI shall be the surviving corporation after the merger; with 51% of its outstanding capital stock owned effectively by both the Company and BFE, 9.8% of its shares owned by Marubeni and 38.4% owned by the shareholders of AGPI before the merger. AGPI’s corporate name will subsequently be changed to “Atlantic, Gulf and Pacific Company of Manila, Incorporated.”

On April 25, 1997, a Supplementary Agreement to the Agreement to Approve Merger dated October 10, 1996 was executed by representatives of AGPI, Marubeni, TPIC, BFE, and the Company which provided that the Company and BFE shall cause the settlement of AGPI’s payables to TPIC amounting to about ₱176 million as of February 28, 1997 plus any accrued interest thereon, in the following manner: (a) the Company and BFE shall identify a third party who shall effect payment to TPIC of the total amount of ₱110,356,428 of TPIC’s receivables from AGPI. The third party purchaser shall be willing to convert the purchased receivables into 2,829,652 shares to be borne by the third party; (b) AG&P shall lend ₱30.1 million to AGPI which amount shall be used by AGPI to pay a portion of the balance of its liabilities to TPIC; and (c) the remaining balance of AGPI’s payables to TPIC amounting to about ₱36 million as of February 28, 1997 plus interest and any other payable of AGPI to TPIC after said date shall be converted by TPIC into shares of stock of AGPI at ₱39 per share prior to the merger.

On September 29, 1997, TPIC, the majority shareholder of AGPI, rescinded the October 10, 1996 Agreement to Approve Merger and the related April 25, 1997 Supplementary Agreement to the Agreement to Approve Merger after the Company claimed through its July 23, 1997 letter to AGPI, TPIC and Marubeni that the signatory to the Supplementary Agreement to the Agreement to Approve Merger dated April 25, 1997 who represented the Company in this transaction was not authorized by the Company. The rescission was accepted by the Company on October 15, 1997 and by BFE on October 28, 1997. However, inspite of TPIC’s rescission of the foregoing merger agreements, AGPI in its March 23, 1998 letter to the Company and BFE called for the following within seven (7) days from receipt of letter: (a) fulfillment by the Company and BFE of their obligations under the foregoing agreements particularly, the settlement of AGPI’s obligations to TPIC, and (b) execution of the required statutory and contractual actions/formalities in order to realize the contemplated merger of AGPI and AG&P.

On March 31, 1998, the Company sent a reply to AGPI and stated its position on the foregoing matters as follows: (a) that both the Supplementary Agreement to the Agreement to Approve Merger and the Agreement to Approve Merger were rescinded by AGPI through TPIC in the letters dated September 16 and 29, 1997; (b) that the Company recognized the rescission of both Agreements in separate letters addressed to AGPI and TPIC dated October 15 and 28, 1997; and (c) that the Company recognized such rescission even as it reiterated that the Company is not a party to the Supplementary Agreement to the Agreement to Approve Merger, inasmuch as the

signatory to such agreement, as mentioned in the preceding paragraph, was not authorized by the Company to represent it in the transaction. Furthermore, the position of the Company was such that its management did not conform with the substance of the Supplementary Agreement to the Agreement to Approve Merger.

From the second half of 1998 up to February 12, 1999, with the Company, DMCI-HI and AGPI sides signifying willingness to explore all possible avenues toward a commercial solution to the controversy, the parties' duly authorized representatives had held several meetings in earnest pursuit of an acceptable extrajudicial settlement of the various issues underlying the controversy between them as discussed in the foregoing paragraphs. The parties apparently made progress in their meetings albeit no definitive agreements have yet been concluded. However, during the parties' February 12, 1999 meeting, a few days after the SEC had issued an order temporarily suspending payment of TPIC's obligations, the Company and AG&P opted to suspend further talks until after the legal situation concerning TPIC clears up and would warrant the continuation of the talks. As of April 15, 2000, there were no additional documents executed with respect to the foregoing matters.

On August 12, 1999, the stockholders of AG&P, with the qualification by representatives of AGPI that their final and unqualified approval shall be subject to the submission by AG&P's management of an acceptable rehabilitation plan for AG&P on or before December 31, 1999, approved the increase in the authorized capital stock of AG&P from ₱36 million consisting of 4.5 million Class A shares and 1.5 million Class B shares, both at ₱6 par value per share to ₱240 million divided into 30 million Class A shares and 10 million Class B shares, both with par value of ₱6 per share. On February 1, 2000, after a unanimous approval of the rehabilitation plan, AGPI through its representatives gave its final and unqualified approval to the said increase in AG&P's capital stock. On the same day, the Board of Directors of AG&P approved the assignment if applicable, by the corporate stockholders of AG&P of the whole or a portion of their respective pre-emptive rights to the increase in capital stock subject to the resolutions adopted by the Board of Directors on June 23, 1999 and by the stockholders on February 1, 2000 relative to the increase in capital. As of April 15, 2000, the increase in AG&P's authorized capital stock is still subject to the approval of SEC.

<u>URPHI</u>

On May 3, 1996, the SEC approved the merger of Universal Petroleum Equity and Property Ventures, Inc., Rightfield Property Ventures, Inc. (Rightfield) and URPHI as provided for in the Plan of Merger executed by the parties. As a result of the merger, PDI's equity amounting to ₱568,423,087, in the resulting net assets of URPHI as of May 3, 1996 (inclusive of subscriptions receivable amounting to ₱393,743,750), net of goodwill recognized by URPHI of ₱463,224,010 as a result of the merger transaction, exceeded by ₱269,990,985 the carrying value of PDI's investment in the shares of stock of URPHI of ₱298,432,102. The excess of PDI's equity in the net assets of URPHI over the carrying value of its investment of ₱269,990,985 is recognized and included in the "Additional paid-in capital" account in the Stockholders' Equity section of the balance sheets.

In 1999, PDI sold about 479.6 million URPHI shares resulting in a reduction of PDI's equity in URPHI from 25.02% in 1998 to 1.97% in 1999. Such disposition of URPHI shares resulted to a gain of about ₱145.2 million, computed based on the carrying value of the URPHI investment as of the date of sale, net of the additional paid-in capital attributable to the shares sold amounting to about ₱178.2 million. As of May 15, 2000, about 20.1 million additional shares were sold for a total consideration of about ₱5.8 million, further reducing PDI's equity in URPHI to about 1.01%.

~~Integrated Asia~~

~~On February 10, 1998, the stockholders of Integrated Asia ratified the shortening of the corporate life of Integrated Asia to February 15, 1998, the immediate cessation of its operations, separation of employees and pursuance of legal action to enforce claims against third parties. Furthermore, the stockholders of Integrated Asia also ratified the creation of a Board of Liquidators for the purpose of prosecuting and defending suits by and against Integrated Asia; to enable it to settle and close its affairs; and to dispose of and convey its property for the purpose of paying its debts. For the year ended December 31, 1997, DMCI recognized losses of about ₱105 million, net of amounts which can be recovered from the assets of Integrated Asia (included in the "Provisions for probable losses on assets and other charges" account in the consolidated statements of income), arising from claims against Integrated Asia which were guaranteed and subsequently paid by DMCI.~~

~~AIMHEC~~

~~On December 22, 1998, DMCI executed a Deed of Sale with the other stockholders (hereinafter referred to as the "Buying Stockholders") of AIMHEC whereby DMCI sold, transferred, conveyed, and assigned to the Buying Stockholders 249,995 shares of the capital stock of AIMHEC for a total consideration of ₱7,014,897. Furthermore, DMCI also withdrew its deposit for future subscription of ₱829,070 to the shares of AIMHEC, thereby divesting its entire interest from AIMHEC.~~

~~Freyssinet Group of Companies~~

~~On October 31, 1998, the SEC approved the merger among FPI, Freyssinet Post-Tensioning & Systems, Inc., Freyssinet Manila, Inc., Freyssinet Glassfiber & Lightweight Concrete, Inc., Freyland Properties, Inc. and Pacopandana Construction & Development Corporation (collectively referred to as the Freysinnet Group of Companies) with FPI as the surviving corporation.~~

MTLCI

On April 23, 1996, PDI together with URPHI, entered into a Memorandum of Agreement (MOA) with Landco Asset Management, Inc. (LAMI) and Metro Pacific Corporation (MPC) with the concurrence of MTLCI which, among others, provided that PDI and URPHI shall subscribe to a portion amounting to ₱330 million each (equivalent to 22% equity each) of the unissued capital stock of MTLCI based on the agreed valuation of the Property of ₱150 per square meter of certain parcels of land, described in the MOA, of which MTLCI is either the beneficial owner and/or the legal claimant.

Pursuant to the provisions of the MOA and in accordance with the subscription agreement dated November 15, 1996 executed between PDI and URPHI and MTLCI, with the conformity of LAMI and MPC, PDI and URPHI subscribed to 785,714 shares each out of the unissued capital stock of

MTLCI for a total subscription price of ₱330 million each, payable on installments up to 1999. As of December 31, 1999, PDI has already paid ₱150 million for such subscription.

On November 10, 1998, however, PDI and URPHI sent a notice to MTLCI terminating the MOA and the related contracts on the basis of the alleged failure of LAMI and MPC to comply with certain warranties and representations contained in the MOA and related contracts as enumerated in the said notice.

On December 9, 1998, MTLCI sent its reply affirming its position that MTLCI, LAMI and MPC did not commit any breach of warranty or misrepresentation under the MOA and related contracts. In the same letter MTLCI demanded for the installment payment of the unpaid subscriptions of PDI and URPHI amounting to ₱90 million each which were due on June 30, 1998. Furthermore, on March 12, 1999, PDI and URPHI proposed for the arbitration of the issues which MTLCI, MPC and LAMI affirmed on its communication dated April 23, 1999. As of May 15, 2000, the arbitration has not yet commenced.

Subic Water

On January 22, 1997, PDI subscribed to 3,262,300 shares at a par value of ₱10 per share or an aggregate value of ₱32,623,200 in Subic Water, a joint venture company, with Subic Bay Metropolitan Authority, a government corporation, Olongapo City Water District, and Biwater International Limited, a company organized under the laws of England. Subic Water was organized primarily to engage in the provision, establishment, operation and maintenance of water and sewerage facilities and systems in the Subic Special Economic and Free Port Zone. The Joint Venture Agreement (agreement) executed by the parties on November 24, 1996 provided that the total initial authorized capital stock of Subic Water shall be ₱250,000,000 consisting of 25,000,000 shares with a par value of ₱10.00 per share, of which, the total initial subscribed and paid-up capital within three (3) years from the effective date of the agreement (defined in the agreement to be the date on which certain conditions stipulated in the agreement shall have been complied with) shall be ₱187,200,000. The agreement further stipulated that PDI shall have an equity participation equivalent to 40% in Subic Water which amounts to ₱74,880,000 based on the foregoing initial subscribed and paid up capital. The balance of PDI's committed subscription to Subic Water of ₱38,256,800, net of additional subscription payment of ₱4 million in 1998, is expected to be paid on or before the second anniversary of the said effective date.

Asian Hospital, Inc. (AHI)

On December 9, 1997 the Company subscribed to 133,333,000 shares of the capital stock of AHI at a subscription price of ₱1.00 per share or a total subscription price of ₱133,333,000, representing 11.11% of the total outstanding capital stock of AHI. On March 22, 1999, the Company waived its subscriptions to the remaining ₱100,000,000 worth of shares in favor of any person to whom AHI may re-allocate such shares. The paid subscription of ₱33,333,000 will be considered as full payment for the equivalent 33,333,000 shares of the capital stock of AHI.

North Luzon Railways Corporation (Northrail)

On June 10, 1995, the Bases Conversion Development Authority (BCDA), a government corporation, Philippine National Railways (PNR), and a consortium comprised of foreign investors and local partners (Consortium) entered into a Joint Venture Agreement to undertake the construction of a double-tract railway system from Metro Manila to Clark (as Phase I) with an extension to Subic Bay Freeport Zone (as Phase II), and a possible extension to San Fernando, La

Union (as Phase III), and finally to Laoag, Ilocos Norte and to San Jose City (as Phase IV) [hereinafter referred to as the "Project"]. The said Joint Venture Agreement also provided for the incorporation of Northrail, initially as a wholly owned corporation of BCDA, the primary purpose of which, among others, is to construct, operate and manage a railroad system to serve Northern and Central Luzon; and to develop, construct, manage, own, lease, sublease and operate establishments and facilities of all kinds related to the railroad system.

On February 6, 1996, pursuant to an amendment to the Joint Venture Agreement, as discussed above, DMCI/PDI was included as a strategic partner to the Project on the basis of its qualifications for the implementation of the Project. Consequently, on February 8, 1996, the partners in the Joint Venture Agreement, including DMCI/PDI, entered into a Memorandum of Agreement to set up the mechanics for raising the seed capitalization needed by Northrail to accelerate the implementation of the Project. The amounts contributed by the joint venture partners are committed to be converted into equity when Northrail is privatized.

As of December 31, 1999 and 1998, DMCI/PDI's contribution of ₱300 million to Northrail is presented under "Deposits on Future Subscriptions" in the "Investments" account of the consolidated balance sheets.

Celebrity

In 1999, certain club shares of Celebrity Sports Plaza, Inc. (CSP) owned by the Company were used as collateral to guarantee the credit facilities granted to an affiliated company.

~~SWCJV~~

~~On February 13, 1997, DMCII (on behalf of DMCI) and Biwater Supply, Inc. (BSI) (on behalf of Biwater Supply Limited), a foreign corporation, (collectively referred to hereinafter as "joint venture partners") executed a Joint Venture Agreement to associate themselves into an unincorporated integrated joint venture (SWCJV) for the purpose of performing the following services to Subic Water, a majority owned corporate joint venture by the affiliates of DMCII and BSI pursuant to Subic Water's Franchise Agreement with the Subic Bay Metropolitan Authority (SBMA), namely: (a) Project Management & Design Agreement (PMDA) for the provision of design and project management services; and, (b) various construction contracts for the construction, refurbishment, rehabilitation, improvement, and upgrading of water and sewerage facilities and systems to be performed by Subic Water.~~

~~The joint venture partners shall remain jointly and severally liable to Subic Water for the due performance and discharge of all liabilities under the various contracts without prejudice to the contractual arrangement between SWCJV and Subic Water, (and, in the event that the terms of the contracts and the terms of the Joint Venture Agreement are in conflict, the terms of the contracts shall prevail). Furthermore, the joint venture partners shall be entitled to share equally in all the assets, guarantees, profits and losses arising out of the joint venture, including any claims made against SWCJV by Subic Water or any third party, and shall be liable in the same proportion for all costs, expenses, liabilities and pecuniary obligations arising out of or resulting therefrom; funds shall be contributed by the joint venture partners as working capital of SWCJV in accordance with their relevant contributions.~~

~~As of December 31, 1999 and 1998, no actual fund contributions were required yet from the joint venture partners since SWCJV had sufficient working capital available for its operations.~~

~~As of December 31, 1998, DMCI's 50% equity in the accumulated net earnings of SWCJV amounting to about ₱7.5 million is included in "Investments in Unincorporated Construction Joint Venture" of the "Investments" account of the consolidated balance sheets.~~

DMCI/WPC Construction Joint Venture
On May 12, 1998, DMCI and Western Philippines Corporation executed a Joint Venture Agreement to associate themselves into an unincorporated construction joint venture for the exclusive purpose of executing and completing a local construction contract.

The Company's 50% equity in the accumulated net earnings of DMCI/WPC Construction Joint Venture amounting to ₱25,443,672 as of December 31, 1999 was included as part of "Investments in Unincorporated Construction Joint Venture" in the "Investments" account of the consolidated balance sheets. The construction joint venture has sufficient working capital for its operations and, accordingly, no actual fund contributions were required from DMCI and its joint venture partner, Western Philippines Corporation.

Investments in Real Estate Joint Ventures
PDI has existing joint venture agreements with various third party property owners, the primary purpose of which is to undertake the development of the respective real estate properties of the said property owners into various condominium projects. Under the terms of these agreements, PDI is committed to make equity contributions and/or share in the total estimated development costs of the projects. In consideration for PDI's agreed cash contributions, PDI will share in the profits of the joint ventures in accordance with a predetermined proportion as agreed among the joint venture partners.

As of December 31, 1999 and 1998, PDI's investment in these real estate joint ventures (net of equity in net losses of ₱6,664,189 in 1999 and 1998, disposals of investments of ₱26,483,506 in 1999 and allowance for probable losses of ₱20,889,983 in 1999 and ₱12,667,905 in 1998) amounted to ₱37,702,351 and ₱72,407,906, respectively.

As of December 31, 1999, the balance of PDI's estimated committed contributions relative to these agreements totalled to about ₱47.8 million.

Investments in Real Estate Properties
DMCI has pledged certain investments in real estate with an aggregate book value of ₱162,083,023 as of December 31, 1999 under various real estate mortgages as collateral for the indebtedness of certain affiliates to various banks and creditors (see Notes 11, 15, 17 and 23).

9. Property, Plant and Equipment

Property, plant and equipment consisted of:

	1999		1998	
	At Appraised Values (Cost Plus Appraisal Increase)	**Appraisal Increase**	At Appraised Values (Cost Plus Appraisal Increase)	Appraisal Increase
Land and land improvements	**₱525,020,899**	**₱–**	₱582,867,946	₱–

Buildings and building improvements	**489,216,744**	**115,153,527**	487,092,120	115,153,527
Construction equipment and tools	**2,516,943,297**	**–**	2,584,683,109	–
Transportation equipment	**133,694,069**	**–**	129,780,865	–
Machinery and other equipment	**273,581,555**	**–**	197,238,878	–
Office furniture, fixtures and equipment	**161,522,308**	**–**	165,676,578	–
Mining fixed assets of Semirara:				
Continuous mining equipment (see Note 15)	**2,284,086,404**	**833,478,817**	2,284,086,404	833,478,817
Conventional and other mining equipment (see Notes 11 and 15)	**2,333,240,228**	**45,594,013**	2,013,146,770	45,594,013
Power plants	**679,662,583**	**376,789,456**	679,662,583	376,789,456
Roads and bridges	**266,532,545**	**166,247,770**	266,532,545	166,247,770
Mining properties	**68,548,387**	**–**	68,548,387	–
Mining exploration and development costs	**97,983,793**	**–**	97,983,793	–
Leasehold and other improvements	**62,002,032**	**–**	59,215,269	–
	9,895,842,090	**1,537,263,583**	9,616,515,247	1,537,263,583
Less accumulated depreciation, depletion and amortization	**5,655,768,102**	**491,610,791**	4,636,933,558	491,610,791
	4,979,581,689	**1,045,652,792**	4,979,581,689	1,045,652,792
Construction in progress	**1,903,623**	–	9,720,689	–
Equipment in transit	**–**	–	927,918	–
	₱4,238,170,365	**₱1,045,652,792**	₱4,990,230,296	₱1,045,652,792

In 1999, DMCI pledged certain parcels of land with an aggregate book value of ₱187,741,196 under various real estate mortgages in order to secure the indebtedness of Semirara to various banks and creditors (see Notes 15 and 17).

Depreciation, depletion and amortization charged to operations (including depreciation on appraisal increase of about ₱101 million in 1999 and ₱143 million in 1998) aggregated to about ₱356 million in 1999 and ₱367 million in 1998.

10. **Deferred Charges and Other Assets**

The details of deferred charges and other assets are as follows:

	1999	1998
Deferred Charges:		
Pre-operating expenses	**₱706,251,294**	₱731,801,561
Mining rights - Panian Mine	**181,451,613**	181,451,613
Stripping costs	**292,550,444**	87,930,463
Mine exploration and development costs	**224,450,054**	71,857,352
Others	**38,708,735**	–
	1,443,412,140	1,073,040,989
Less allowance for losses on preoperating expenses, stripping costs, and deferred exploration and development costs; and amortization of preoperating expenses	**714,298,772**	827,282,577
	729,113,368	245,758,412
Advances to Real Estate Joint Ventures:		
Land for development (see Notes 3 and 7)	**225,000,000**	225,000,000
Cash advances	**–**	–
	225,000,000	225,000,000

Funds Held by Custodian Bank	**38,317,700**	26,458,712
Deposits and Others (including margin deposits on letters of credit amounting to ₱5,953,404 in 1998) - net of allowance for probable losses of ₱317,583	**36,502,263**	54,102,424
Assets Not Used in Operations - net of accumulated depreciation of ₱148,480,028	**–**	454,183
	₱1,028,933,331	₱551,773,731

The Company has a Custodianship Agreement with a local bank wherein which the Company maintains a Sinking Fund Account comprised of cash or money market instruments gradually set aside in order to cover the future redemption of the 2,400,000 redeemable, convertible, preferred shares by April 7, 2002 (Final Redemption Date – see Note 19). The annual deposits to the Sinking Fund are in accordance with an approved schedule of payments.

11. **Notes Payable**

Notes payable consisted of the following:

	1999	1998
Bank loans of:		
DMCI and subsidiaries	**₱**	₱206,375,974
PDI		120,000,000
Semirara		18,800,000
Notes payable of Semirara to a supplier		5,594,635
Current maturities of long-term notes payable (see Note 15)		58,627,521
	₱	₱409,398,130

As of December 31, 1998, ₱100,000,000 of the DMCI bank loans of ₱206,375,974 represents unsecured obligations of DMCI. The remaining balance of ₱106,375,974 pertained to the obligations of certain DMCI subsidiaries which were secured by joint suretyship agreements by certain stockholders and other affiliated companies and collateralized by mortgages on certain parcels of land (see Notes 8 and 17) owned by DMCI. As of December 31, 1997, the bank loans of DMCI and subsidiaries were unsecured. All of these bank loans bear interest at prevailing market rates.

PDI's bank loans of ₱120,000,000 in 1998 represent peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are secured by Surety Agreement issued by the Company and certain individual stockholders and real estate mortgages on certain real estate properties of PDI (see Notes 7 and 17).

Bank loans of ₱18,800,000 in 1998 represent Semirara's unsecured peso denominated short-term borrowings from a local bank which bear interest at prevailing market rates. Bank loans of ₱95,010,061 in 1997 which represent the unpaid balance of the ₱330 million bridge financing loan facility obtained from a local bank were refinanced on December 4, 1998. Such loans bear interest at prevailing market rates and are secured by a chattel mortgage on certain machinery and equipment of Semirara (see Note 9) and a Deed of Suretyship by DMCI (see Note 15).

The notes payable of ₱5,594,635 in 1998 represent short-term obligations to a local supplier arising from acquisition of equipment parts and supplies, which bear a fixed interest rate of twenty-four percent (24%) per annum. The notes payable of ₱17,183,191 in 1997 represent short-term obligations to a local supplier arising from acquisition of certain mining equipment and equipment parts and supplies, which were fully paid in 1998.

Total interest paid by the Company and its subsidiaries for all their obligations for the years ended December 31, 1998 1997 and 1996 amounted to ₱136,619,221, ₱57,811,268, and ₱18,344,763, respectively.

12. Accounts Payable and Accrued Expenses

The details of accounts payable and accrued expenses are as follows:

	1999	1998
Suppliers	**₱1,269,087,164**	₱670,346,688
Subcontractors	**(35,632,869)**	555,936,887
Payable to the Department of Energy (DOE) and local government units	**118,494,341**	85,211,299
Accrued expenses and other payables	**1,777,733,231**	1,770,793,642
Payable to Voest-Alpine Machinery, Construction & Engineering GmbH (VA M.C.E.)	**–**	–
	₱3,082,288,516	₱3,082,288,516

Semirara has an existing Coal Operating Contract with the DOE (formerly Ministry of Energy) dated July 11, 1977, as amended on January 16, 1981, for the exploration, development, mining and utilization of coal over Semirara Island, Antique, under the terms and conditions provided therein and pursuant to the provisions of Presidential Decree No. 972, otherwise known as the Coal Development Act of 1976. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012. The contract also provided for the manner and basis of sharing the gross proceeds from coal production between Semirara and the DOE. The liabilities to the DOE under this contract and to the different local government units in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to about ₱85 million and ₱53 million as of December 31, 1998 and 1997, respectively.

The payable balance to VA M.C.E. as of December 31, 1997 of ₱790 million represents the unpaid portion of the total consideration of ₱940,000,000 stipulated in a Second Sale and Purchase Agreement entered into by the Company and VA M.C.E. on March 6, 1997, as further amended on March 24, 1997, in connection with the Company's acquisition of certain shares and assumption of certain outstanding liabilities of Semirara. The unpaid balance of ₱790,000,000, which was secured by an irrevocable standby letter of credit issued by a local bank in favor of VA M.C.E, was paid in lump sum by the Company on September 24, 1998 in full compliance with the terms stipulated in the agreement between the contracting parties.

13. Payables to Landowners

Payables to landowners represent the balance of the obligations of PDI to various real estate property sellers for the acquisitions of certain parcels of land (presented in the consolidated balance sheets as part of "Land held for future development" under the "Real Estate Held for Sale and Development" account) (see Note 7).

The terms of the deeds of absolute sale covering these acquisitions provided that these obligations are payable only after certain conditions have been complied with; among others, (a) presentation by the property sellers of the original Transfer Certificates of Title covering the purchased parcels of land; (b) submission of a Certificate of Non-Delinquency of real estate taxes; and, (c) physical turnover of the acquired parcels of land to PDI. As of May 31, 1999, about ₱1 million of the payable balance was subsequently paid.

Also, included in this account is a payable of PDI amounting to ₱29,578,668, which, as stipulated in the terms of the deed of absolute sale between PDI and the seller, shall be paid in proportion to the area of the acquired property (see Note 7) that has been cleared by the property owner of all squatters and illegal structures.

14. **Deferred Credits**

The details of this account are as follows:

	1999	1998
Deferred income tax - net (see Note 16)	**₱803,858,216**	₱724,591,172
Excess of net assets acquired over the cost of investment in Semirara - net of accumulated amortization of ₱167,767,160 in 1998 and ₱83,930,239 in 1997 (see Note 21)	**195,047,329**	251,884,037
Deferred revenues of:		
Semirara	**–**	122,485,460
PDI	**–**	18,096,743
	₱998,905,945	₱1,117,057,417

Semirara's deferred revenues of ₱122,485,460 in 1998 and ₱155,533,968 in 1997 represent the balance of National Power Corporation's (NPC) payments for the unlifted coal totalling to 150,000 MT Selectively Mined Coal (Select) priced at ₱178,615,000 and 31,034 MT Run-of-Mine (ROM) priced at ₱27,951,825 that formed part of the minimum contracted quantity which NPC agreed to purchase for the years 1990 and 1991, respectively, under the Coal Supply Agreement between Semirara and NPC effective during those years. On September 28, 1990, Semirara entered into a Memorandum of Agreement (MOA) with NPC relative to the 150,000 MT Select coal, whereby Semirara agreed to provide NPC 150,000 MT Select coal or its ROM coal equivalent, free of cost to NPC, over a period of seven (7) consecutive years in equal tonnage beginning 1993 or when Calaca II power plant starts operations, whichever is earlier. As of December 31, 1998 and 1997, total coal lifted under the said MOA totalled to 56,711 MT and 42,856 MT Select coal equivalent or its peso equivalent of ₱63,791,071 and ₱51,023,857, respectively. On December 20, 1991, Semirara also entered into a Memorandum of Agreement with NPC relative to the 31,034 MT of ROM coal as earlier mentioned wherein which Semirara agreed not to exercise its right of forfeiture over the said coal tonnage and instead, upon 30 days of NPC's written notice, make available for NPC's lifting 31,034 MT of ROM coal on an FOB Semirara basis. As of December 31, 1998, total coal lifted relative to the 31,034 MT of ROM coal totalled 22,528 MT with a peso equivalent of ₱20,290,294.

15. **Non-Current Liabilities**

Non-current liabilities as of December 31, 1998 and 1997 pertained to Semirara's various long-term obligations as follows:

	1999	1998
Bank loan	**₱**	₱300,000,000
Notes payable		283,026,593
Acceptances payable		384,376,454
		967,403,047
Less current portion of:		
Notes payable (see Note 11)		58,627,521
Acceptances payable		141,797,151
	₱	₱766,978,375

The long-term bank loan of ₱300,000,000 was obtained to refinance certain short-term loans and liabilities under letters of credit to the bank. This bank loan bears interest at prevailing market rates, as defined in the Loan Agreement dated December 4, 1998; is secured by a Chattel Mortgage on certain property, machinery and equipment of Semirara and a Deed of Suretyship of DMCI (see Notes 9 and 11); and is payable in eleven (11) equal quarterly installments starting June 2000 up to December 2002. Furthermore, the loan agreement provided certain restrictions and requirements with respect to, among others, changes in Semirara's business ownership, declaration of dividends. Also, the Company executed a Deed of Undertaking on December 4, 1998, wherein which the Company undertook and obligated itself, in favor of the local bank, not to sell, reduce, assign, pledge, or transfer its shares in Semirara for as long as the loan of Semirara with the local bank is outstanding.

The notes payable of ₱283,026,593 (US$7,230,210) in 1998 and ₱31,587,739 (US$787,410) in 1997, represent U.S. dollar-denominated long-term obligations to foreign suppliers arising from acquisitions of certain mining equipment, parts and supplies. These notes payable bear interest at prevailing market rates; are collateralized by the mining equipment acquired (see Note 9), an unconditional and irrevocable Letter of Guarantee of the Company (see Note 23) and Assignment Agreement whereby Semirara assigned to the supplier its right to receive payment from NPC in case there is default of any payments; and are payable in various installments up to May 2003.

The long-term acceptances payable represent liabilities under three (3) year deferred usance letters of credit obtained from local banks for the acquisition of mining equipment. These acceptances payable, which bear interest at prevailing market rates, are secured by Surety Agreement and/or Real Estate Mortgages of affiliated companies (see Notes 7, 8 and 9); and are payable in various annual installments until October 2001.

16. **Income Taxes**

The significant components of the Company and its subsidiaries' deferred income tax assets and liabilities, as presented under "Deferred Credits" (see Note 14) in the liabilities section of the consolidated balance sheets, are as follows:

	1999	**1998**
Deferred tax asset on:		
Allowance for losses on preoperating expenses, stripping and deferred exploration, and development costs	₱	₱265,860,263
Net operating loss carryover		192,646,625
Allowance for doubtful accounts		84,876,162
Allowance for inventory obsolescence		18,658,400
Unamortized past service cost contributions		8,716,960
Unrealized foreign exchange loss – net		6,234,428
Excess of tax over book real estate revenues		2,339,589
Accrued expenses and others		7,807,772
Total deferred income tax assets		587,140,199
Less valuation allowance		(534,284,692)
Net deferred income tax assets		52,855,507
Deferred tax liability on:		
Excess of book over tax income pertaining to uncompleted construction contracts		(776,909,068)
Others		(537,611)
Total deferred income tax liabilities		(777,446,679)
	₱	(₱724,591,172)

The reconciliation of the provision for income tax computed at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income for the years ended December 31, 1998, 1997, and 1996 follows:

	1999	1998	1997
Provision for income tax computed at the statutory income tax rates of 34% in 1998 and 35% in 1997 and 1996	₱	₱215,951,350	₱341,321,943
Addition to (reduction in) income tax expense resulting from:			
Nondeductible (nontaxable) equity in net losses (earnings) of unconsolidated affiliated companies and real estate joint ventures		109,613,001	(22,620,961)
Depreciation on appraisal increase		48,652,108	–
Gain on sale of marketable equity securities and investment in shares of stock		(29,502,455)	–
Interest income subjected to final tax at a lower rate		(22,819,800)	(55,170,956)
Others - net		(20,749,012)	(7,366,541)
Net effect of the change in the statutory income tax rate from 35% in 1997 to 34% 1998; 33% in 1999; and 32% in 1999; and 32% in 2000 and onwards		(21,703,611)	(6,109,155)
Effect of tax loss position of a subsidiary	–	–	124,367,433
Provision for income tax	₱	₱279,441,581	₱374,421,763

Income taxes paid by the Company and its subsidiaries for the years ended December 31, 1998, 1997, and 1996, amounted to ₱159,757,911, ₱200,869,805, and ₱294,767,340, respectively.

On December 11, 1997, Republic Act No. 8424 entitled "An Act Amending the National Internal Revenue Code, As Amended, and For Other Purposes" (Act), was passed into law effective January 1, 1998. Among others, the Act included the following significant revisions to the rules of taxation:

(a) Change in the corporate income tax rate to 34% in 1998, 33% in 1999 and 32% in 2000 and onwards;

(b) Mandatory use of the percentage of completion method in reporting income from construction contracts entered into and started on January 1, 1998; whereas uncompleted contracts already started prior to January 1, 1998 may still be reported for tax purposes under the completed contract method of accounting; provided certain conditions are met;

(c) Imposition of minimum corporate income tax of 2% of gross income, as defined;

(d) Imposition on the employer of a final tax on grossed up monetary value of fringe benefits granted to employees (except rank and file) at the following rates: 34% in 1998; 33% in 1999 and 32% in 2000 and onwards;

(e) Reduction of the interest expense allowed as deductible expense by an amount equivalent to a certain percentage of the interest income subjected to final tax as follows: 41% starting January 1, 1998, 39% starting January 1, 1999, and 38% starting January 1, 2000 and onwards; and,

(f) Introduction of a three-year net operating loss carryover.

17. **Related Party Transactions**

In the regular course of business, the Company and its subsidiaries' transactions with affiliated companies consisted primarily of the following:

(a) Comprehensive Surety, Corporate and Letters of Guarantees issued by the Company, together with its certain consolidated subsidiaries, in favor of certain third parties for various credit facilities granted to and for full performance of certain obligations by the Company and/or its consolidated subsidiaries' affiliated companies. As of December 31, 1998, the aggregate amount of outstanding surety and/or guarantees issued by the Company and/or/together with its consolidated subsidiaries in favor of their affiliated companies amounted to about ₱1.6 billion.

(b) Certain real estate properties of a consolidated subsidiary were placed under accommodation mortgages to secure the bank loans of an affiliated company. In consideration of the said accommodation mortgages, the consolidated subsidiary and the affiliated company executed a

Continuing Agreement and Indemnity to indemnify and hold free and harmless the consolidated subsidiary from any claims, liabilities, demands, actions, costs, expenses and consequences of whatever nature which may arise from the said accommodation mortgage.

(c) Cash and operating advances made by the Company and its consolidated subsidiaries to and from various unconsolidated affiliated companies.

(d) Other transactions consisted of purchases of materials and equipment, construction contracts, assignment of assets and equipment rentals.

The total receivables from and payables to various unconsolidated affiliated companies amounted to about ₱1.3 billion and about ₱61 million in 1998 and about ₱944 million and about ₱204 million in 1997.

The effects of the foregoing transactions are shown under the appropriate accounts in the consolidated financial statements.

18. **Retirement Plan**

DMCI and Semirara have funded and formal noncontributory defined retirement plans covering their regular employees. Retirement benefits are computed principally based on member's latest monthly salary per year of service. Total retirement costs charged to operations by DMCI and Semirara amounted to about ₱26 million in 1998 and ₱24 million in 1997.

Beta Electric, which does not have any formal retirement plan for its regular employees, provides for estimated retirement benefits required in accordance with Republic Act No. 7641 to qualified employees. Retirement expense accrued by Beta Electric for the years ended December 31, 1998 and 1997 amounted to ₱569,261 in 1998 and ₱655,000 in 1997. Based on the actuarial estimates as of December 31, 1998, computed under the attained age normal method, the unfunded past service costs amounted to about ₱2 million.

The most recent actuarial valuation for DMCI dated December 31,1998 reported actuarial accrued retirement benefits amounting to about ₱130 million and plan assets with a fair market value in the amount of about ₱60 million, resulting to an unfunded past service cost liability of about ₱70 million. The principal actuarial assumptions used to determine the retirement benefits were an investment yield of 10% per year compounded annually, annual salary increases of 10% per year compounded annually, and normal retirement age of 60 years or 30 years of service, whichever comes earlier.

On the other hand, the latest actuarial valuation for Semirara dated January 1, 1997, disclosed that the present value of retirement benefits amounted to about ₱85 million, while the fair value of the plan's net assets amounted to about ₱46 million resulting to an unfunded present value of retirement benefits of about ₱39 million. The principal actuarial assumption used to determine retirement benefits was a uniform rate of 10% for discount, salary increases, and return on plan assets.

Actuarial valuations are made at least every two- (2) years. Annual contribution to the retirement plan consisted of payments covering the normal service cost for the year and a payment toward funding the unfunded actuarial liability.

19. **Capital Stock**

The movement of the Company's capital stock, additional paid-in capital, and preferred shares held in treasury is accounted as follows:

	No. of Shares		Issued		Held in Treasury		Additional
	Authorized	Unissued	No. of Shares	Amount	No. of Shares	Amount	Paid-in Capital
Cumulative, convertible preferred stock- ₱1 par value:							
Balance as of December 31, 1997	100,000,000	97,600,000	2,400,000	₱2,400,000	-	₱-	₱2,326,566,774
Acquisition of shares to treasury	-	-	-	-	(307,440)	(181,057,908)	-
Issuance of shares previously held in treasury	-	-	-	-	70,000	40,660,200	4,482,981
Balance as of December 31, 1998	100,000,000	97,600,000	2,400,000	₱2,400,000	(237,440)	(₱140,397,708)	₱2,331,049,755
Common stock- ₱1 par value:	5,900,000,000	*3,644,506,000	2,255,494,000	₱2,255,494,000	-	₱-	₱2,373,452,402
Excess of equity in net assets over carrying value of investment in URPHI (see Note 9)							
Balance as of December 31, 1997	-	-	-	₱-	-	₱-	₱269,990,985
Portion allocated to the URPHI shares sold during the year	-	-	-	₱-	-	₱-	(76,573,047)
Balance as of December 31, 1998	-	-	-	₱-	-	₱-	₱193,417,938
	6,000,000,000	3,742,106,000	2,257,894,000	₱2,257,894,000	(237,440)	(₱140,397,708)	₱4,897,920,095

* As of December 31, 1998, 202,486,891 common shares are potentially issuable upon the exercise of preferred shareholders of their rights to conversion.

Preferred Shares

On January 31, 1997, the SEC authorized the Company to offer in a primary offering out of the unissued authorized preferred stock, 2,400,000 preferred shares due April 7, 2002 (Final Redemption Date), with a par value of ₱1.00 per share at an issue price of ₱1,000 per share, subject to, among others, the following terms and conditions: (a) the shares shall bear dividends at the following annual rates, payable semestrally in arrears and in cash, with the first dividend payment to commence at the end of the first semester from the date of the issuance of the shares (the "Issue Date"): Year 1, 4.0%; Year 2, 5.0%; and Years 3 to 5, 7.2% ; (b) the shareholder may convert the preferred shares to common shares to be issued by the Company from its unissued authorized capital stock, commencing on the sixth (6th) month from Issue Date and ending thirty (30) calendar days before Final Redemption Date at a conversion price computed at the average market price of the common shares as traded at the Philippine Stock Exchange (PSE) for a period of fifteen (15) consecutive trading days immediately preceding one (1) day prior to the start of the Offer Period, plus a conversion premium of ten percent (10%), subject to certain adjustments due to the occurrence of certain events; and, (c) unless previously redeemed, purchased, cancelled, or converted, the preferred shares shall be redeemed by the Company at the end of five (5) years from the Issue Date (see Note 10). Early redemption is also allowed under certain terms and conditions. Also, on February 13, 1997, the SEC issued a Permit to Offer Share for Sale for the underlying 150,000,000 unissued common shares with a par value of ₱1.00 per share or an aggregate value of ₱150 million, which will be subsequently issued upon the exercise by the preferred shareholders of their right to conversion. The preferred shares were listed with the PSE on April 7, 1997.

For the years ended December 31, 1998 and 1997, total dividends declared on the preferred shares amounted to ₱101,008,950 and ₱72 million; respectively. As of December 31, 1998, the unpaid dividends that was accrued amounted to ₱27,032,000.

The excess amounting to ₱2,326,566,774 of the offer price over the par value of the Company's preferred shares of stock, net of the cost related to the offering was credited to the "Additional paid-in capital" account in the consolidated balance sheets.

On May 27, 1997, the SEC licensed the issuance of additional 74,719,200 common shares, with a par value of ₱1.00 per share, to cover the additional underlying shares of convertible preferred shares at the adjusted conversion price of ₱10.68 per share. The adjustment of the conversion price was made in order to reflect the dilutive effect of the 100% stock dividend declared, so as to meet the conversion requirement of the preferred shares.

On January 27, 1998, the Company's Board of Directors approved the acquisition of its outstanding preferred shares to treasury, subject to management's discretion whenever conditions deem it favorable to repurchase such shares. As of December 31, 1998, the Company held 237,440 preferred shares in treasury with an aggregate cost of ₱140,397,708, inclusive of incidental expenses.

20. Retained Earnings

The movement of the Company's retained earnings follows:

	1999	1998
Balance at beginning of year	**₱**	₱945,677,403
Transactions during the year:		
Net income for the year		308,522,035
Cash dividends declared on preferred shares - 5% per share in Year 2 and 4% per share in Year 1 (see Note 19)		(101,008,950)
Common stock dividends – 100%	**–**	–
Balance at end of year	**₱**	₱1,153,190,488

The Company's share in the cumulative undistributed earnings of its subsidiaries and affiliated companies included in retained earnings amounting to about ₱914 million as of December 31, 1998 is not currently available for dividend declaration by the Company until actually distributed by such subsidiaries and affiliated companies. The subsidiaries and affiliated companies will utilize their undistributed earnings for working capital requirements and dividend declarations to be implemented in the succeeding years.

The retained earnings as of December 31, 1998 is also restricted for dividend declaration to the extent of the costs of preferred shares held in treasury, which amounts to about ₱140 million as of December 31, 1998 (see Note 19).

21. Interest and Other Income

Interest and other income consisted of the following:

	1999	1998	1997
Interest – net	**₱**	₱173,640,385	₱273,654,333
Gain on sale of assets		105,663,508	76,623,842
Amortization of excess of net assets acquired over cost of investment in Semirara		83,836,921	83,930,239
Reversal of provisions for penalty charges and other reserves		74,887,743	–
Foreign exchange gain – net		59,172,148	43,755,777
Miscellaneous		32,193,176	50,433,520
	₱	₱529,393,881	₱528,397,711

22. Coal Supply Agreement with National Power Corporation

Semirara has an existing Coal Supply Agreement (Agreement) with NPC dated May 19, 1995, whereby Semirara agreed to sell and NPC agreed to buy from Semirara the coal requirements of NPC for its two (2) 300 megawatt coal-fired thermal power plants at Calaca, Batangas (Calaca I & II). As provided for in the said Agreement, the annual contracted quantity which Semirara agreed to supply and which NPC agreed to buy are as follows: (a) 600,000 MT to a maximum of 900,000 MT, commencing on July 1, 1995 until March 31, 1996; (b) 1,050,000 MT to a maximum of 1,500,000 MT, after March 31, 1996 until March 31, 1997 or until Unong mine is declared depleted by Semirara. In case Unong mine is not declared depleted by Semirara by March 31, 1997, the annual minimum contracted quantity of 1,050,000 MT shall be reduced to 900,000 MT starting April 1, 1997. However, upon declaration by Semirara that the Unong mine is depleted, Semirara shall supply NPC and NPC shall buy from Semirara an annual minimum of 700,000 MT to a maximum of 1,200,000 MT.

The Agreement also provided for, among others, the pricing determination of which the base price per MT of coal is determined every January 1 and July 1 and is computed based on a formula as stipulated in the Agreement. This base price is subject to adjustment for penalty or bonus which is to be determined on a per delivery basis, based on a set of coal quality standards as also stipulated in the Agreement. The balance of Semirara's receivable from NPC arising from the Agreement amounted to ₱163,278,728 and ₱68,127,450 as of December 31, 1998 and 1997, respectively. This Agreement is effective for 15 years up to May 2010.

23. Contingencies

The Company and its subsidiaries are contingently liable for guarantees arising in the ordinary course of business, including letters of guarantee for performance, surety and warranty bonds for various construction projects amounting to about ₱2.4 billion as of December 31, 1998. In addition, the Company and/or its consolidated subsidiaries issued various corporate guarantees in 1998 amounting to about ₱4.42 billion in order to secure credit facilities granted to certain subsidiaries and affiliated companies by various creditors, and to secure the performance and guarantee bonds for various projects awarded to the Company's subsidiaries or affiliated companies.

There are pending legal cases against the Company and its subsidiaries as of December 31, 1998 that are being contested by the Company and its subsidiaries and their legal counsel. The management of the Company and its subsidiaries and their legal counsels believe that the final resolutions of these claims will not have a material effect on the financial position and operating results of the Company and its subsidiaries.

24. Commitments

As provided for by a Memorandum of Agreement with a third party dated November 25, 1997, PDI has committed to make cash contributions to a real estate joint venture project totalling to about ₱375 million in a manner, and after fulfillment of certain conditions precedent, and as defined and enumerated in the agreement. As of December 31, 1998, no contribution has yet been made by PDI.

As of May 31, 1999, Semirara has outstanding purchase commitments to certain foreign and local suppliers for various equipment, equipment parts and supplies amounting to about ₱329 million.

The Company and its subsidiaries lease a portion of their office premises, renewable under such terms and conditions that may be agreed upon with the lessors. The approximate minimum annual rentals on such leases after December 31, 1998 are not material to the Company and its subsidiaries' results of operations.

As of December 31, 1998, unused letters of credit amounted to about ₱96 million.

25. Recent Economic Conditions

The operations of the Company and its subsidiaries have been affected (through the increase in cost of construction and other materials, imported equipment, equipment parts and supplies, and financing costs; and the general slowdown of construction activity and deterioration of project profitability) and may continue to be affected for the foreseeable future by the adverse economic conditions especially in relation to persistent currency volatility and the general deterioration of the economies of the countries in the Asia Pacific Region.

It is not possible to determine the future effects of a continuation of the present economic slowdown may have on the Company and its subsidiaries' liquidity and future earnings, particularly in relation to Semirara's net foreign currency denominated obligations of about US$30 million as of December 31, 1998. The ultimate outcome of the foregoing matters cannot presently be determined. The related effects of these uncertainties will be reported in the consolidated financial statements as they become known and estimable.